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INTRODUCTION

The Office of Internal Audit performed an audit of Montmorency/Oscoda County FIA for the period October 1, 1999 through February 16, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Montmorency/Oscoda County FIA had 35 full time equated positions (FTE's) at the time of our review. Montmorency/Oscoda County FIA provided assistance to an average 1,704 recipients per month during FY 1999, with total assistance payments of \$872,588 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Montmorency/Oscoda County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Safe and Controlled Documents
Modified Accrual Basis Balance Sheet	Medical Transportation
Food Stamp Inventory and Issuance	Child Well Being
State Emergency Relief (SER)	Employment Support Services
Client Processing	CIS/ASSIST
IRS Information Security	Payroll and Timekeeping
Procurement Card	Telephone Usage

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Montmorency/Oscoda County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization.

LOCAL OFFICE RESPONSE

The management of Montmorency/Oscoda County FIA has reviewed all findings and recommendations in this report. They agreed with the report and implemented corrective action for all items according to a memo dated February 17, 2000.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

Field Receipt Usage

1. Montmorency County FIA did not always use Field Receipts (FIA-3543) for checks, and money orders received in the mail. Instead the field receipts were being used only when an over the counter payment was made. Accounting Manual Item 432 requires preparation of a field receipt and the first copy forwarded to the fiscal office.

WE RECOMMEND that Montmorency County FIA prepare field receipts for negotiables received in the mail and then forward the field receipt and negotiables to the fiscal office.

Medical Transportation

Missing Medical Needs Authorizations

2. Montmorency/Oscoda County FIA did not have up to date Medical Needs Authorizations (FIA-54A) on file for 8 out of 10 cases we tested. Program Administrative Manual Item 825 and Accounting Manual Item 416 required that properly completed FIA-54A's be on file to document the need for medical transportation. Proper completion of all required information on the FIA-54A helps to ensure that medical transportation payments are only authorized when there is a documented medical need.

WE RECOMMEND that Montmorency/Oscoda County ensure that complete, up-to-date Medical Needs Authorizations are on file to document the need for all medical transportation payments.

State Emergency Relief

Payment Authorization Files

3. Montmorency/Oscoda County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's in date order attached to the monthly reconciliation report. Maintaining the FIA-13's in either alphabetical or case number order provides an audit trail to easily detect how many supplement payments a client has received, and makes the FIA-13's easy to retrieve if needed at a later date.

WE RECOMMEND that Montmorency/Oscoda County FIA maintains FIA-13's in either alphabetical or case number order.

Supporting Documentation for Payments

4. Montmorency/Oscoda County FIA did not always attach supporting documentation to the FIA-849 on file in the Accounting Office, as required by Accounting Manual Item 404. An original invoice or other supporting documentation was not attached for 13 of the 79 payments we reviewed. Attaching invoices to the Accounting Office copy of the FIA-849 helps ensure that all FIA-849 payments are accurate and appropriate.

WE RECOMMEND that Montmorency/Oscoda County FIA attach an original invoice or other supporting documentation to the Accounting Office copy of the FIA-849.

CIS/ASSIST

CIS Security Agreements

5. Montmorency County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for 5 employees who access the Client Information System (CIS), as required by L-Letter 97-063. For five of the 14 agreements we reviewed the status code indicated on the FIA-3974A did not agree with the current status code listed on the Operator Identification Report (PF-011).

WE RECOMMEND that Montmorency County FIA have all employees who have access to the CIS system complete a CIS Security Agreement and that the status codes on the Security Agreement are consistent with the status code on the PF-011 report.

Note: The security agreements of the 5 employees were updated while the auditor was on site.

Security Officers Log Report (PD-180)

6. Montmorency/Oscoda County FIA did not reconcile the Security Officers Log Report (PD-180) to the Security Agreements (FIA-3974A's). L-Letter L-97-063 requires the reconciler to review this report to a signed Security Agreement to ensure that all changes are accurate. For internal control purposes the reconciler must not be the CIS Security Coordinator and someone without access to CIS.

WE RECOMMEND that Montmorency/Oscoda County FIA reconcile the PD-180 report to revised Security Agreements and that an independent person performs the reconciliation.

CIS Status Codes

7. The Family Independence Managers (FIM) at Montmorency/Oscoda County had a FIS status code on the Client Information System (CIS) and also reconcile the ampersand cases on the Transaction Control Listing Report MA-010. This status code allows the FIM's to make changes to client cases and then process payments to those same cases. This status would allow the FIM to process case transactions without an independent review.

WE RECOMMEND that Montmorency/Oscoda County FIA change the Family Independence Managers, to inquiry only status on CIS.

Procurement Card

Procurement Card Usage

8. Montmorency County FIA did not properly separate duties of Procurement Card Usage. Our review disclosed that the same person prepares the Procurement Card Transaction Log, verifies the receipt of goods and reconciles the Cardholder

Transaction Detail report. Separation of duties will ensure that all purchases are logged, received, and reconciled by the supervisor in accordance with the Primary Internal Control Criteria for Local/District Office Operations.

WE RECOMMEND that Montmorency County FIA separate the duties of Procurement Card usage.

Cash Receipts

Unrecorded Cash Receipts

9. Oscoda County FIA was not posting all Official Cashier Receipts to the Receipts Register. Cashier Receipts should be posted to the Cash Receipts Register so that all receipts are accounted for when performing the reconciliation of receipts to the amount of the deposit.

WE RECOMMEND that Oscoda County FIA post all Official Cashier Receipts to the Receipts Register.

Cash Disbursements

Sign-O-Meter Record

10. Oscoda County FIA did not prepare the Sign-O-Meter Record (FIA-4711), as required by Accounting Manual Item 410.1. Use of the Sign-O-Meter and reconciliation process helps to ensure that all checks that go through the check signer are accounted for in the accounting records.

WE RECOMMEND that Oscoda County FIA use the Sign-O-Meter record and reconcile it to the Check Register each month.

Stamping Documents “PAID”

11. Oscoda County FIA did not stamp supporting documents “PAID” when payment was made. The Accounting Manual Items related to each payment type require that supporting documents be stamped “PAID.” Stamping supporting documents “PAID” helps prevent duplicate payments.

WE RECOMMEND that Oscoda County FIA stamp supporting documents “PAID” when payment is made.

Note: Payment documents are now being stamped PAID.

Modified Accrual Basis Balance Sheet

Balance Sheet Discrepancy

12. Oscoda County FIA had a discrepancy of \$1.58 between the Accounts Receivable Due from State – Other Administrative Pending File and the total for that account on the Modified Accrual Basis Balance Sheet. Accounting Manual Item 402.3 requires that a reconciliation of these accounts be performed each month.

WE RECOMMEND that Oscoda County FIA reconcile the Accounts Receivable pending File to the Modified Accrual Basis Balance Sheet figure each month, and resolve any discrepancies noted.

Safe and Controlled Documents

Controlled Document Log

13. Oscoda County FIA did not properly control blank documents. We noted that the local office was not recording the Balance On Hand totals on the Controlled Document Log (FIA-4070) for Blank Voucher Checks (FIA-1802), for both LOAAS

and LASR checks, Official Cashier Receipts (FIA-3681), Purchase Order/Invoices (FIA-2083), and Temporary Food Stamp Identification Cards (FIA-183A), as required by Accounting Manual Item 403. Properly completing the Controlled Document Log help to ensure that loss, theft, or misuse of controlled documents, which could be used to generate unauthorized payments, would be detected on a timely basis.

WE RECOMMEND that Oscoda County FIA complete the Balance On Hand column on the Controlled Document Log.

Food Stamp Inventory and Issuance

Separation of Duties – Food Stamp Reconciliation

14. Oscoda County FIA did not have proper separation of duties in controlling the food stamp inventory. Our review showed the same two people issue stamps, post to the Perpetual Inventory Control Log (FIA-879) and perform the month end physical inventory and reconciliation. The Primary Internal Control Criteria for Local/District Offices states that a physical count of food coupon inventory is to be performed by two staff working together independent of the staff persons who issue stamps and post to the FIA-879. Separation of food stamp issuance's, posting and reconciliation functions will help to prevent errors and inappropriate issuance of food coupons.

WE RECOMMEND that Oscoda County FIA have two people work together to perform the food stamp mail issuance, and have an independent employees perform a month end reconciliation of the issuance.

Employment Support Services

No findings

Client Processing

No Findings

IRS Information Security

Knowledge of IRS Security Procedures

15. The Oscoda County FIA mailroom staff and newly hired FIS and ES were unaware of the proper procedures to follow for confidential information received from the IRS. Program Administrative Manual (PAM) Item 803 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that the Oscoda County FIA familiarize the mailroom staff and newly hired workers with all aspects of the confidentiality laws for information received from the IRS.

Payroll and Timekeeping

No Exception Noted

Procurement Card

No Exception Noted

Telephone Usage

No findings

Child Well Being

No findings